

Alan F. Ciamporero
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November 19, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Ex Parte: Universal Service - CC Docket 96-45, Forward Looking Mechanism for High Cost Support for Rural LECs - CC Docket 97-160

Dear Ms. Salas:

On Tuesday, November 17, representatives from GTE met separately with Kevin Martin of Commissioner Furchgott-Roth's office and William Rogerson, Chief Economist, Office of Plans and Policy to discuss issues referred to the Federal/State Joint Board, USTA's proposal for universal service support for non-rural LECs, and customer impacts of USTA's plan.

On Wednesday, November 18, representatives from GTE also met with Rich Lerner, Tamara Preiss, Belinda Nixon and Aaron Goldschmidt of the Common Carrier Bureau and Jim Schlichting to discuss the same topics.

Sincerely,

Attachments

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Sincerely,

A handwritten signature in cursive script, reading "Alan Ciamporcero".

Attachments

Federal Universal Service Funding And Surcharge Requirements

Universal Service Component	Funding Requirement	Requisite Surcharge Based On Total Retail Revenues	Requisite Surcharge Based On Interstate Retail Revenues	Flat Fee Per Line	Flat Fee Per Telephone Number
USTA Plan*	\$ 4,300,000,000	2.15%	5.66%	\$ 2.00	\$ 1.55
Schools & Libraries	\$ 1,300,000,000	0.65%	1.71%	\$ 0.61	\$ 0.47
Rural Health Care	\$ 100,000,000	0.05%	0.13%	\$ 0.05	\$ 0.04
High Cost Support - HCF	\$ 857,774,080	0.43%	1.13%	\$ 0.40	\$ 0.31
High Cost Support - LTS	\$ 469,290,120	0.23%	0.62%	\$ 0.22	\$ 0.17
High Cost Support - DEM	\$ 395,735,800	0.20%	0.52%	\$ 0.18	\$ 0.14
Low Income Support	\$ 463,200,000	0.23%	0.61%	\$ 0.22	\$ 0.17
Total*	\$ 7,086,000,000	3.54%	9.32%	\$ 3.30	\$ 2.55

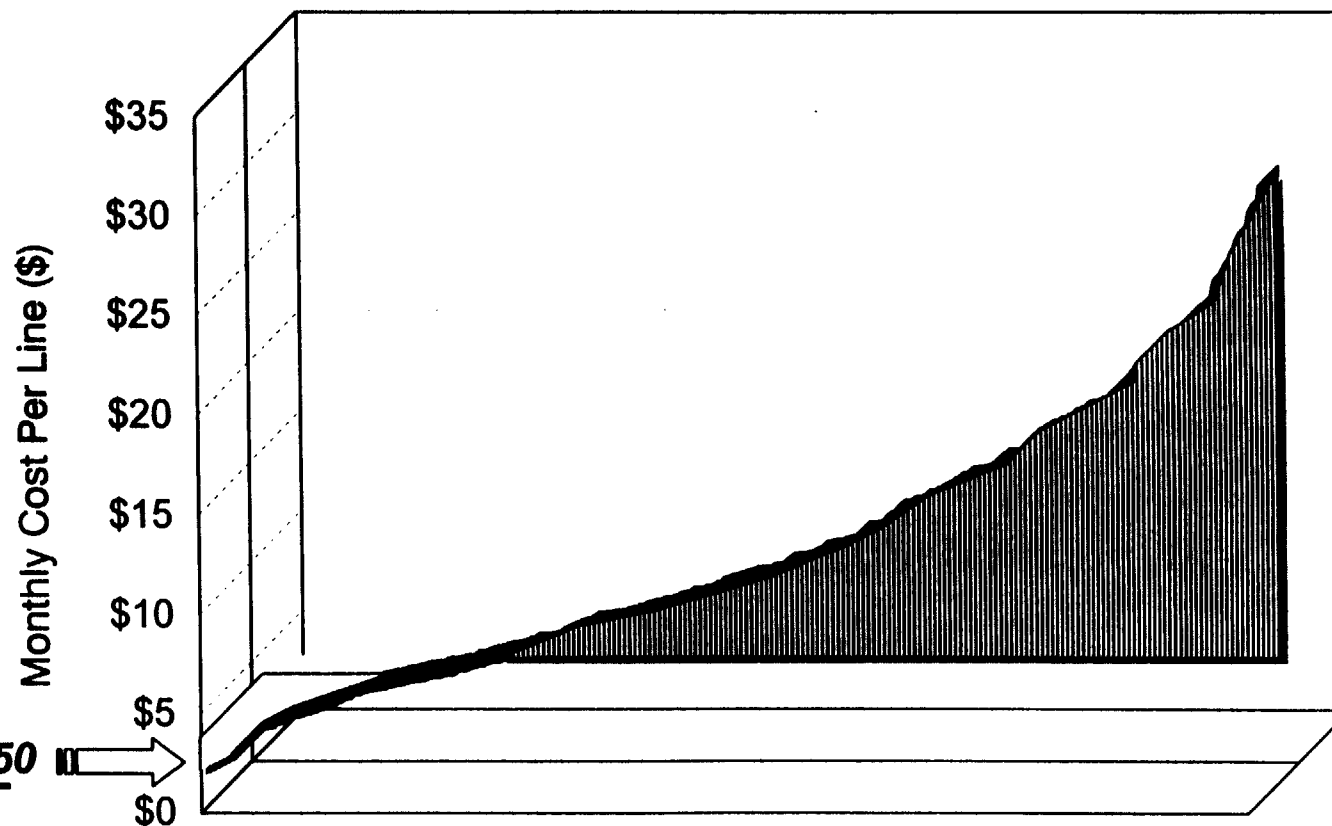
- * Includes interstate access replacement component of USTA plan. This analysis does not include any increase in high cost funding provided to states.
- * Net Of \$800 M Contributions included in USTA funding requirement

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CCL And PICC Revenues Support Higher Cost Areas



CCL And
PICC
Charges
Allow
Residential
SLC To Be
Capped At
An Affordable
Level.



* Chart shows current level of monthly interstate common line recovery per line for GTE and Contel of Texas. Distribution of costs based on wire center output from BCPM 3.1. Costs truncated at \$30 per line per month.

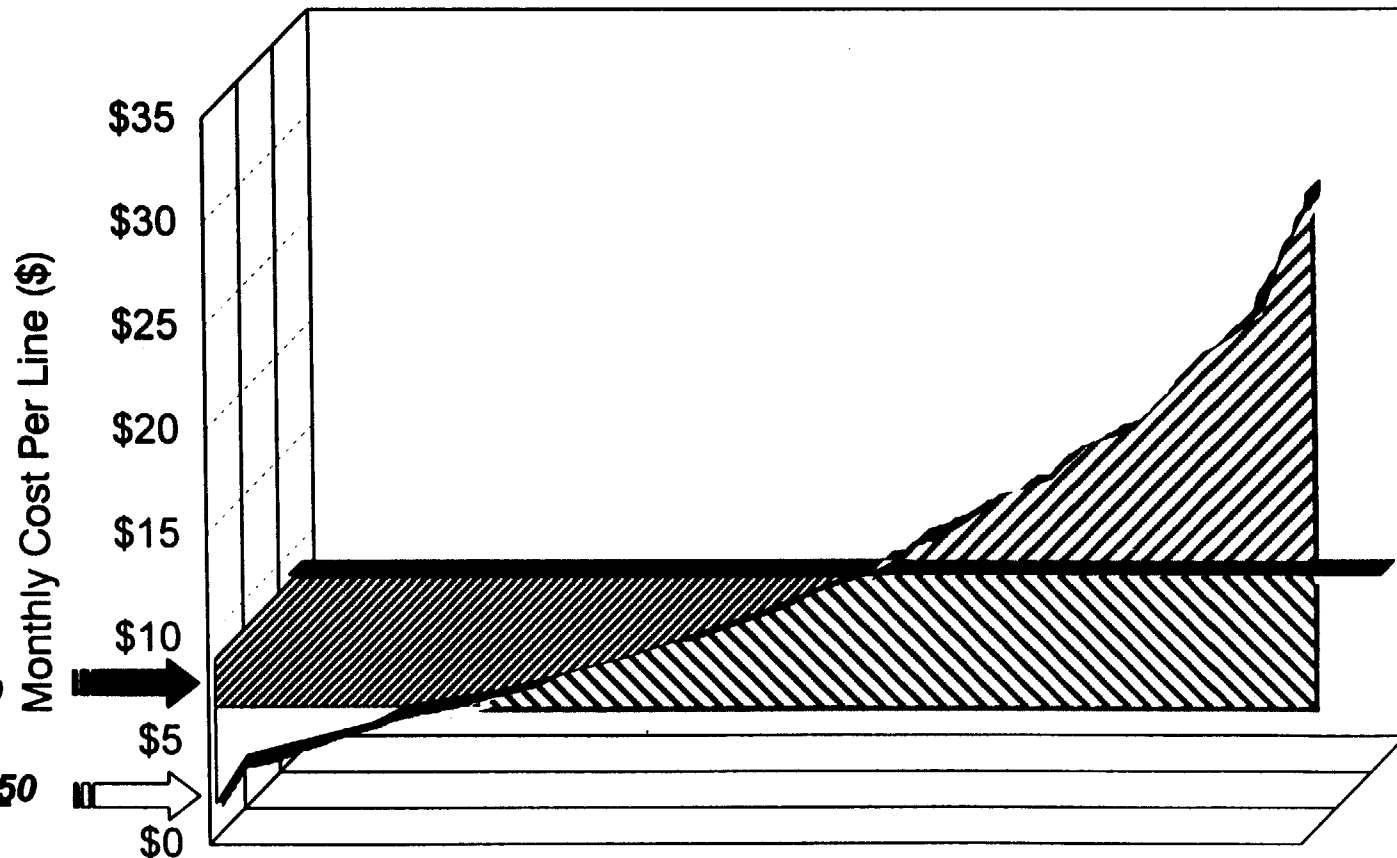
CCL And PICC Revenues Support Higher Cost Areas



CCL And
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Allow
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And Business
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Levels.

Business SLC Of \$9.00

Residential SLC Of \$3.50

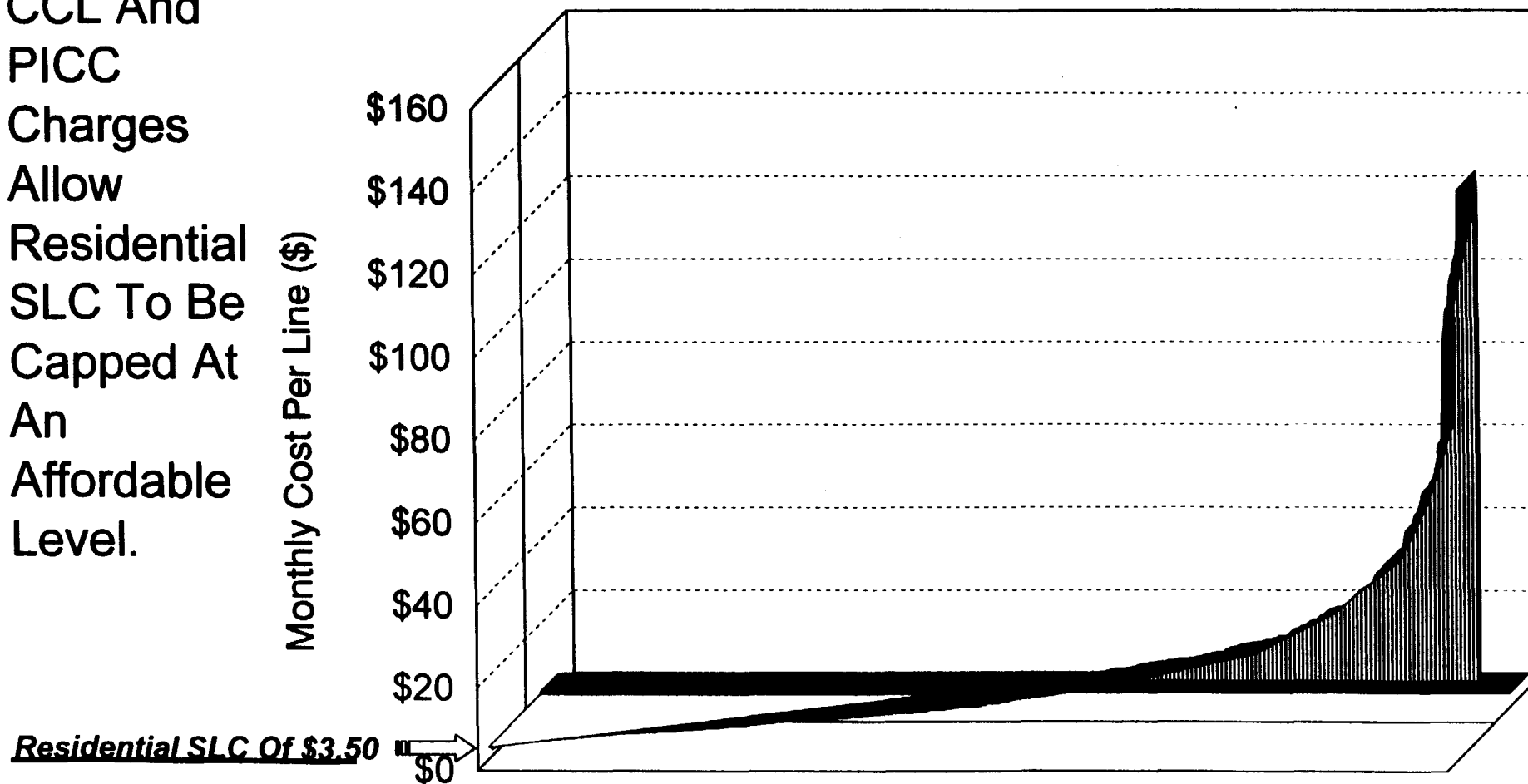


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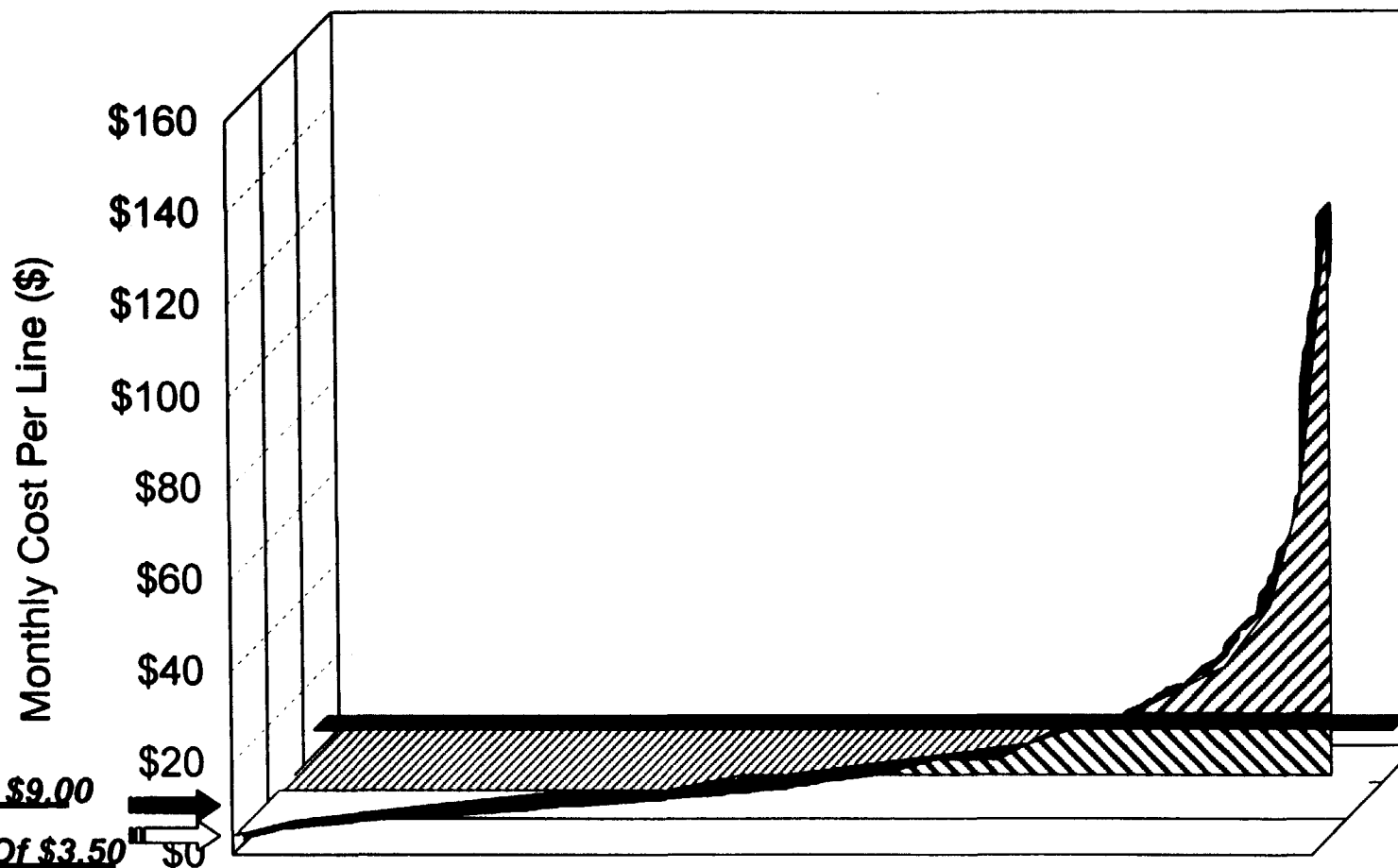


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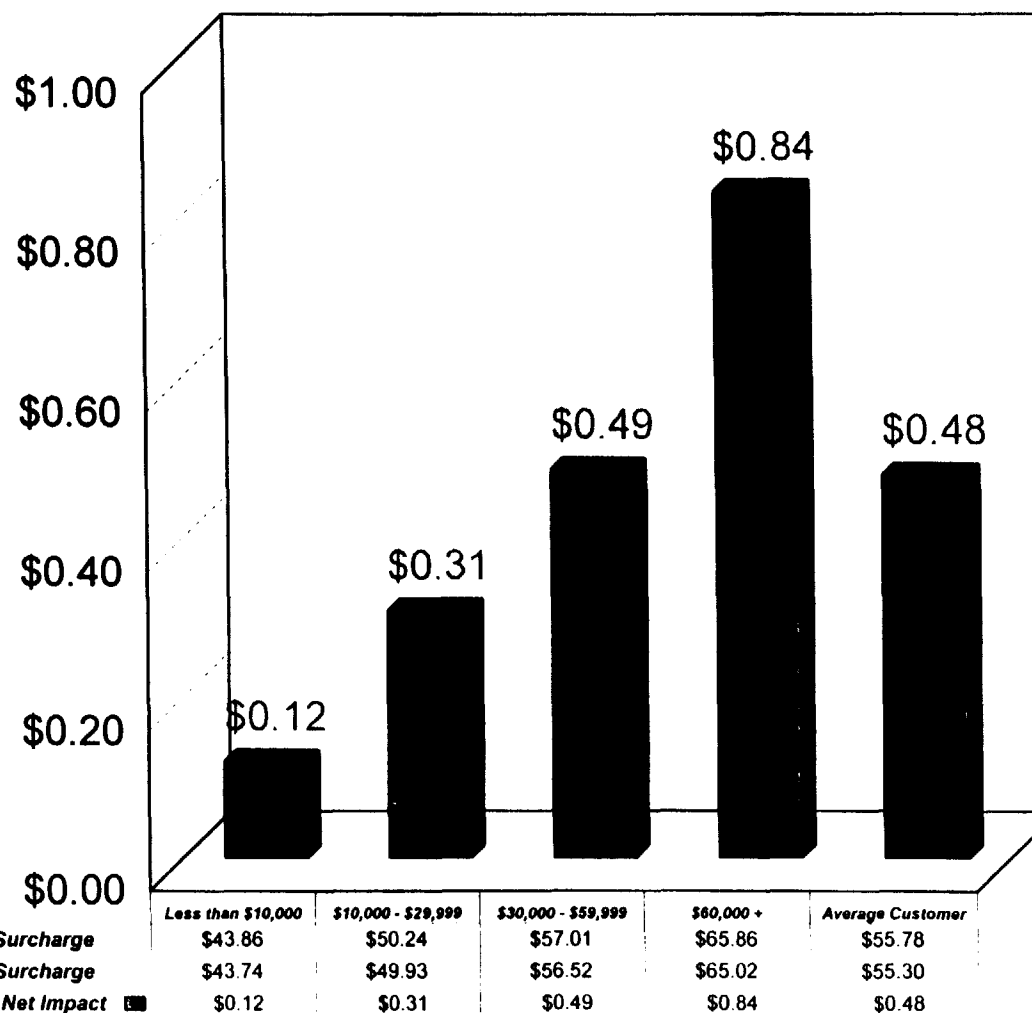


* Chart shows current level of monthly interstate common line recovery per line for GTE and Contel of Texas. Distribution of costs based on wire center output from BCPM 3.1.

Residential Net Customer Bill Impact By Household Income



A Flat Fee Of \$1.09 Per Residential Telephone Number And \$2.19 Per Business Telephone Number Would Generate Funding For The USTA Proposal To Eliminate The Interstate CCL and PICC: A \$4.3B Reduction In Access Charges. An Average Residential Consumer Would Save \$0.48.



Average Local & Long Distance Bill Before Access Reduction And Surcharge

Average Local & Long Distance Bill After Access Reduction And Surcharge

Net Impact

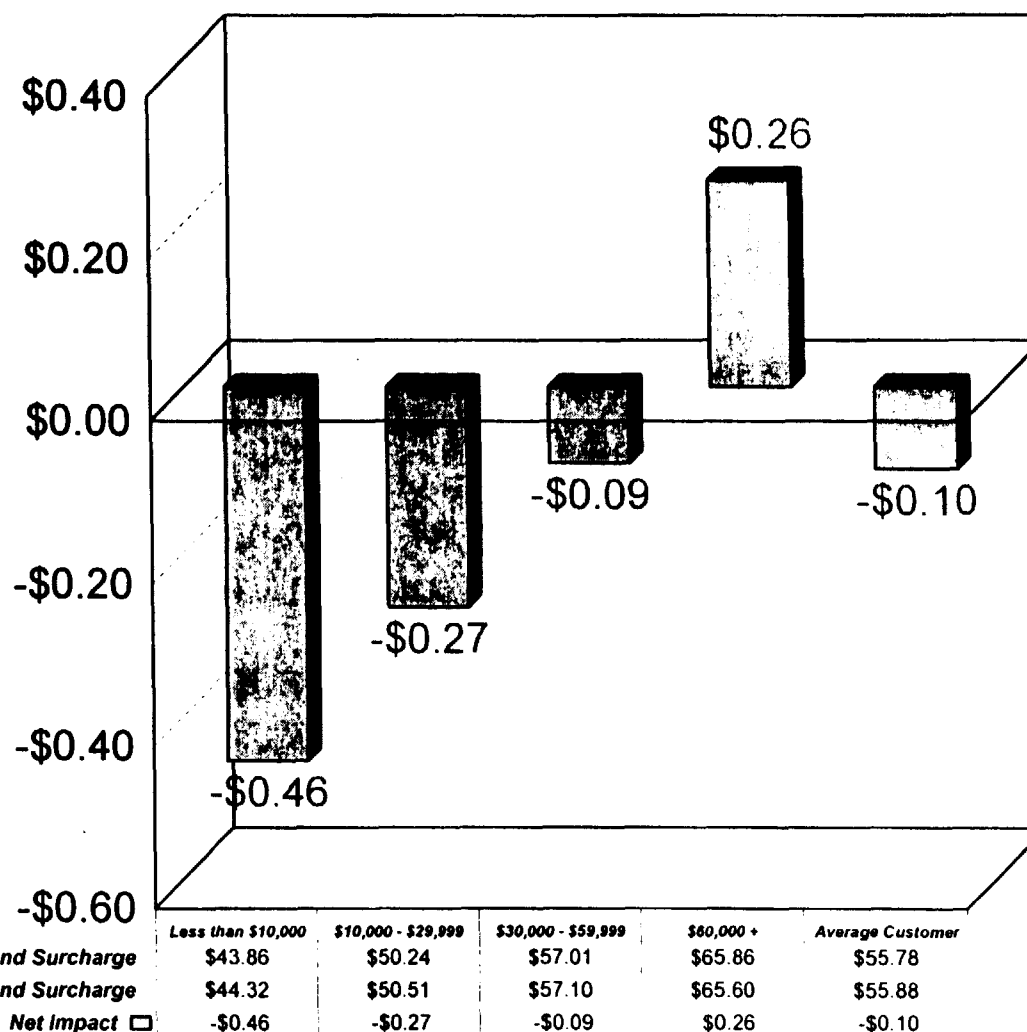
Less than \$10,000	\$10,000 - \$29,999	\$30,000 - \$59,999	\$60,000 +	Average Customer
\$43.86	\$50.24	\$57.01	\$65.86	\$55.78
\$43.74	\$49.93	\$56.52	\$65.02	\$55.30
\$0.12	\$0.31	\$0.49	\$0.84	\$0.48

* Analysis based on 1998 PNR Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a \$1.09 surcharge per residential telephone number and \$2.19 per business telephone number, where residential telephone numbers represent apx. 60% of total telephone numbers (based on relative access lines in SOCC). Any increase in high-cost funding to states would produce additional reductions in state rates that are not reflected here.

Residential Net Customer Bill Impact By Household Income



A Flat Fee Of \$1.67 Per Residential Line And \$3.34 Per Business Line Would Generate Funding For The USTA Proposal To Eliminate The Interstate CCL and PICC: A \$4.3B Reduction In Access Charges. An Average Residential Consumer Would Pay \$0.10 More Than They Do Today.



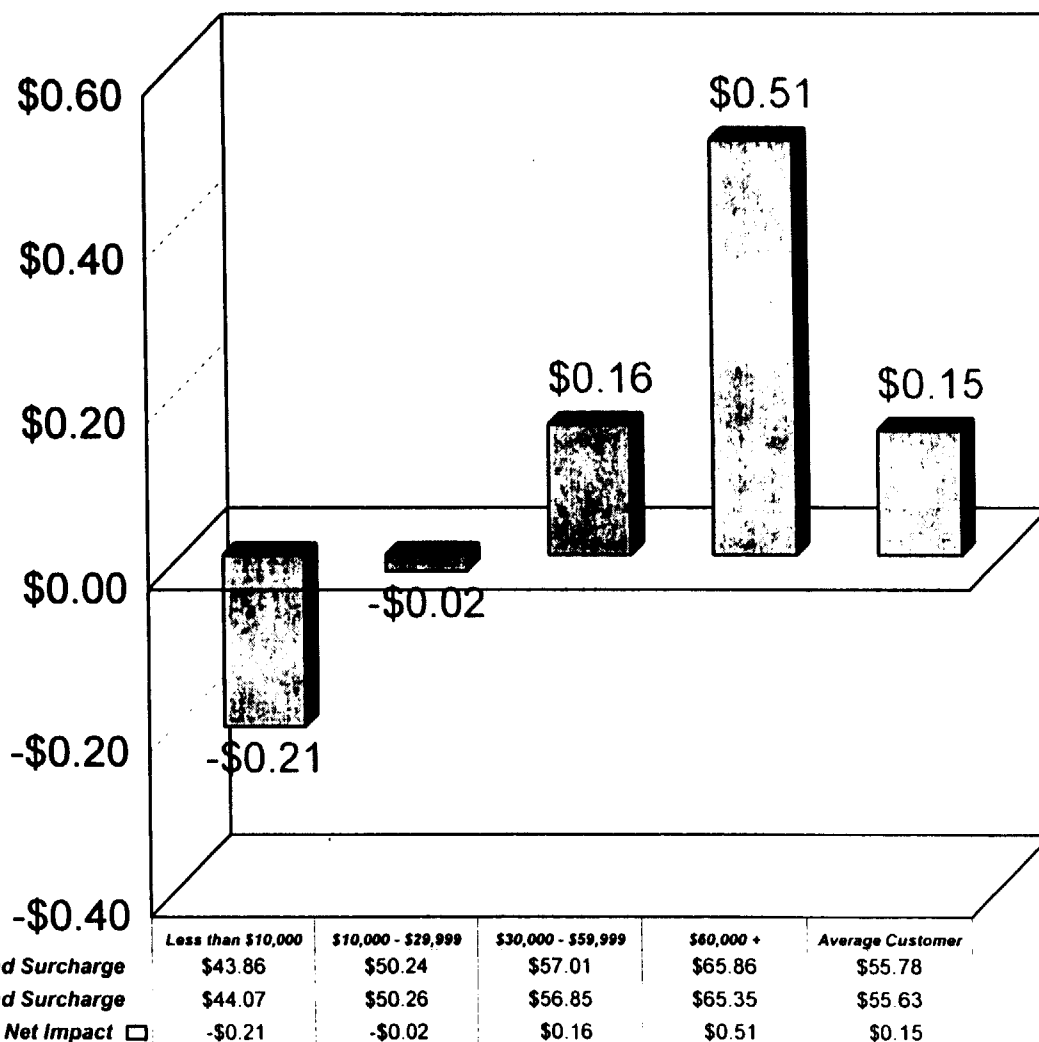
Average Local & Long Distance Bill Before Access Reduction And Surcharge	\$43.86	\$50.24	\$57.01	\$65.86	\$55.78
Average Local & Long Distance Bill After Access Reduction And Surcharge	\$44.32	\$50.51	\$57.10	\$65.60	\$55.88
Net Impact	-\$0.46	-\$0.27	-\$0.09	\$0.26	-\$0.10

* Analysis based on 1998 PNR Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a \$1.67 surcharge per residential local loop and \$3.34 per business local loop, assuming conservatively that residential lines represent 80% of total lines. Any increase in high-cost funding to states would produce additional reductions in state rates that are not reflected here.

Residential Net Customer Bill Impact By Household Income



A Flat Fee Of \$1.42 Per Residential Line And \$2.84 Per Business Line Would Generate Funding For The USTA Proposal To Eliminate The Interstate CCL and PICC: A \$4.3B Reduction In Access Charges. An Average Residential Consumer Would Save \$0.15.



Average Local & Long Distance Bill Before Access Reduction And Surcharge

Average Local & Long Distance Bill After Access Reduction And Surcharge

Net Impact

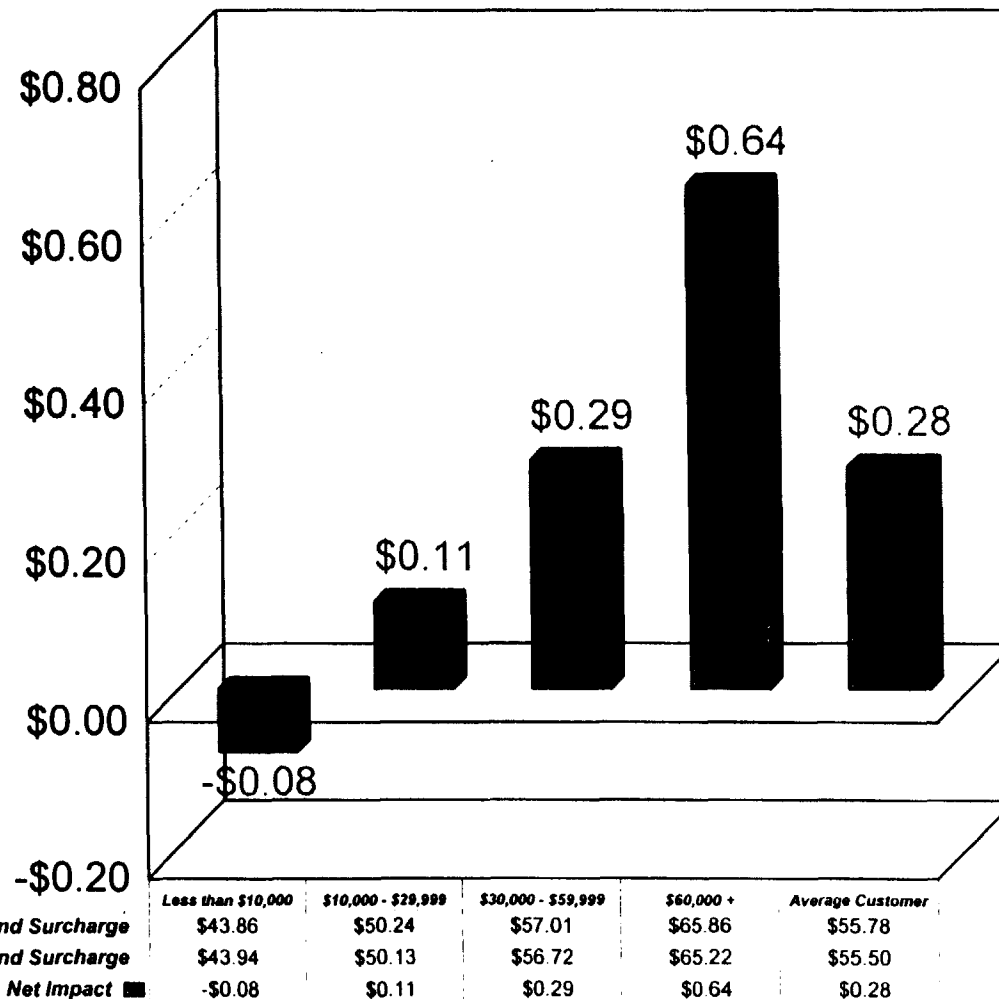
Less than \$10,000	\$10,000 - \$29,999	\$30,000 - \$59,999	\$60,000 +	Average Customer
\$43.86	\$50.24	\$57.01	\$65.86	\$55.78
\$44.07	\$50.26	\$56.85	\$65.35	\$55.63
-\$0.21	-\$0.02	\$0.16	\$0.51	\$0.15

* Analysis based on 1998 PNR Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a \$1.42 surcharge per residential local loop and a \$2.84 surcharge per business local loop, assuming that residential lines represent apx. 60% of total switched and special access lines (SOCC). Any increase in high-cost funding to states would produce additional reductions in state rates that are not reflected here.

Residential Net Customer Bill Impact By Household Income



A Flat Fee Of \$1.29 Per Residential Telephone Number And \$2.58 Per Business Telephone Number Would Generate Funding For The USTA Proposal To Eliminate The Interstate CCL and PICC: A \$4.3B Reduction In Access Charges. An Average Residential Consumer Would Save \$0.28.



* Analysis based on 1998 PNR Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a \$1.29 surcharge per residential telephone number and \$2.58 per business telephone number, where residential telephone numbers conservatively are assumed to represent 80% of total telephone numbers. Any increase in high-cost funding to states would produce additional reductions in state rates that are not reflected here.

The Universal Service Challenge

Dennis Weller
Chief Economist
GTE

NARUC
7 November 1998

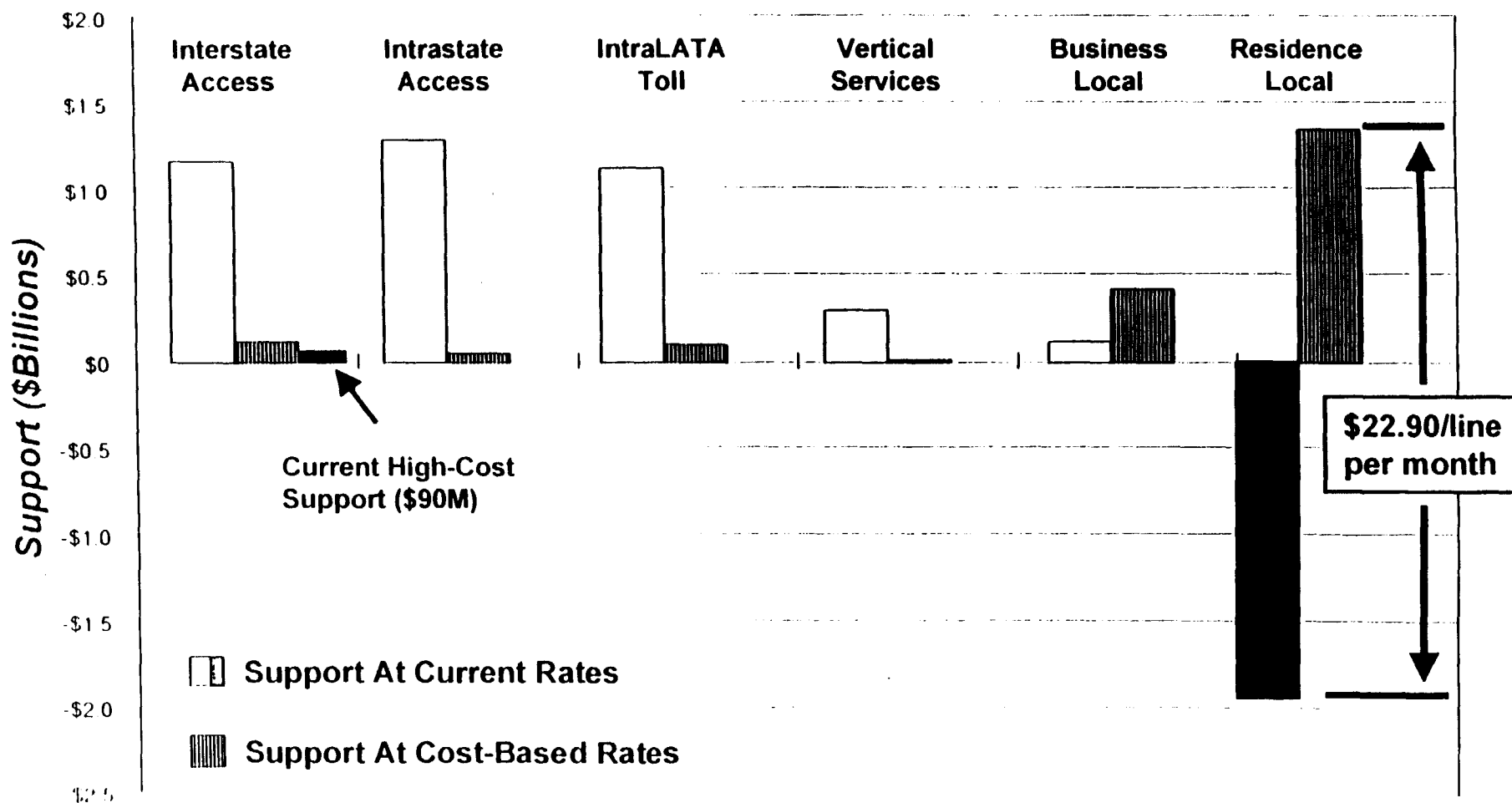
The Universal Service Challenge

- What's the Problem?
- What's the Solution?
 - USTA Proposal for Nonrural Areas
- What's the Effect on Consumers?
- How Will Benefits Be Passed Through?

What's The Problem?

- We Have a Funding Mechanism Today
 - Most support is implicit
 - A portion comes from interstate access
 - \$5.9 Billion per year
 - The rest comes from state rates for access, toll, vertical services, business
- The Current Support Is Unfair and Inefficient
 - Not consistent with Act
 - Unsustainable
 - Preempts residence local competition
 - Why should states care about implicit interstate support?

GTE's Universal Service Support By Service



* Interstate contribution excludes EUCL charges

What's The Solution?

- Provide Explicit, Competitively Neutral Funding
- USTA Proposal
 - For Federal mechanism
 - For Non-rural areas
- Two Components:
 - Replace implicit support generated by interstate access today
 - Provide funding -- where needed -- to replace implicit support generated by state rates today

USTA Proposal: Interstate Access Component

- Would eliminate interstate CCL and PICC charges

About \$4.3 Billion for this component

Support in each study area = current revenue

Becomes per-line support amount

Portable

Per-line amount varies by small area

- Use cost model to determine relative levels

USTA Proposal: State High Cost Component

- Additional Federal Funding For States
Where Needed to Assure Affordable,
Comparable Rates
- States Have Responsibility to Address
Problem
- Federal Funding at Least At Current Level
About \$250 million today
Any increases to offset current implicit support

Funding For USTA Proposal

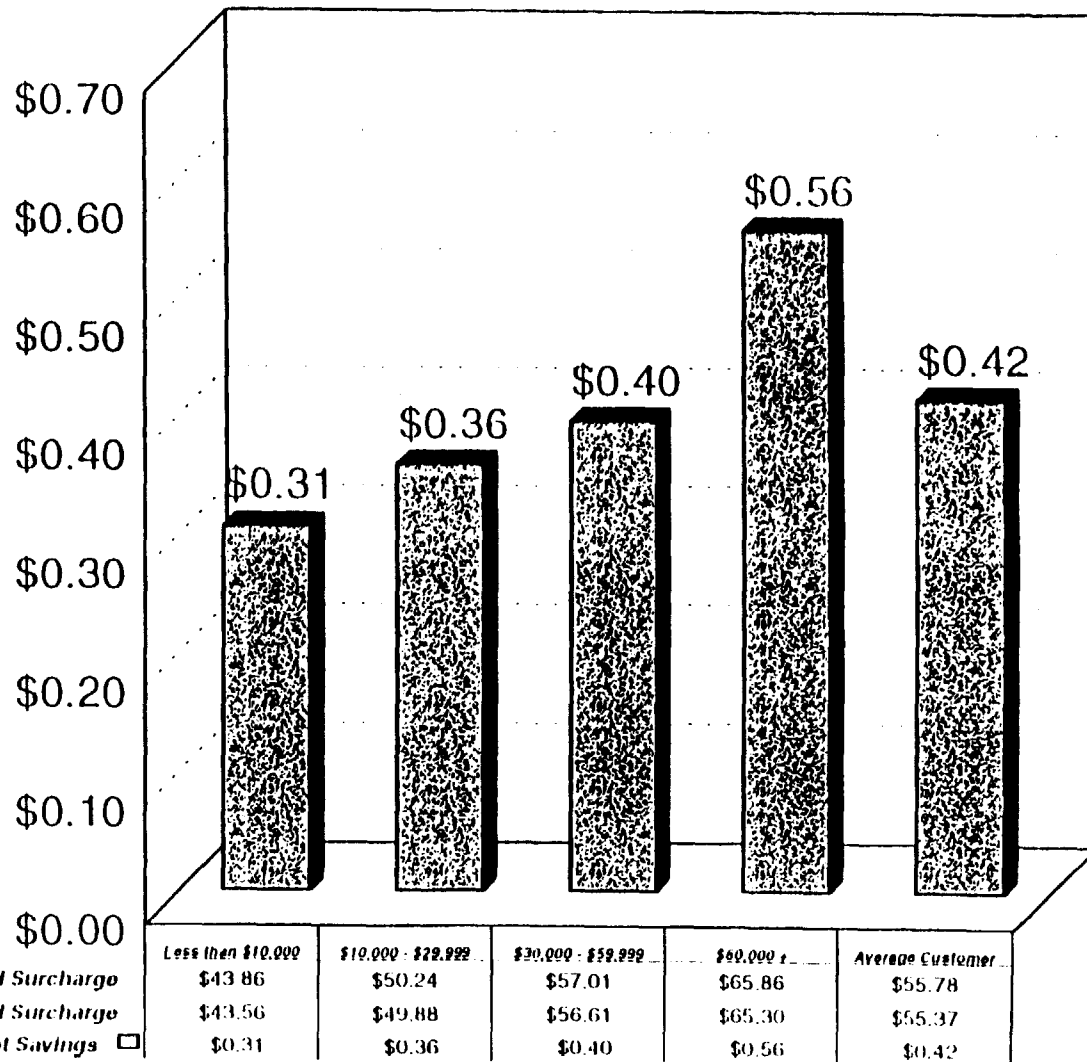
- Surcharge On Retail Revenues of All Carriers --
State and Interstate
 - Fair, neutral
 - Provides largest possible base
 - Eliminates need to identify traffic, opportunity for misreporting
- Surcharge For Interstate Component 2.15%
 - Replaces ILEC contribution to existing funds --
recovered in access today (about \$800 million of the
\$4.3 Billion)

What Is the Effect on Consumers?

- Analysis of USTA Proposal
 - Based On Sample of Customer Bills
 - Does Not Analyze Increase in State Component
 - Eliminate IXC PICC Pass-through
 - Reduce Interstate long distance 1.1 cents/min
 - Apply 2.15% surcharge
- Residence Wireline Customers benefit
 - At all Income levels
 - At all volume levels
 - Even customers who make no toll calls

Net Customer Bill Savings By Household Income **GTE**

On Average,
Customers In All
Income Segments
Would Benefit From
The USTA Proposal
Which Would
Eliminate Interstate
CCL and PICC (A
\$4.3B Reduction In
Access Charges)



Average Local & Long Distance Bill Before Access Reduction And Surcharge

Average Local & Long Distance Bill After Access Reduction And Surcharge

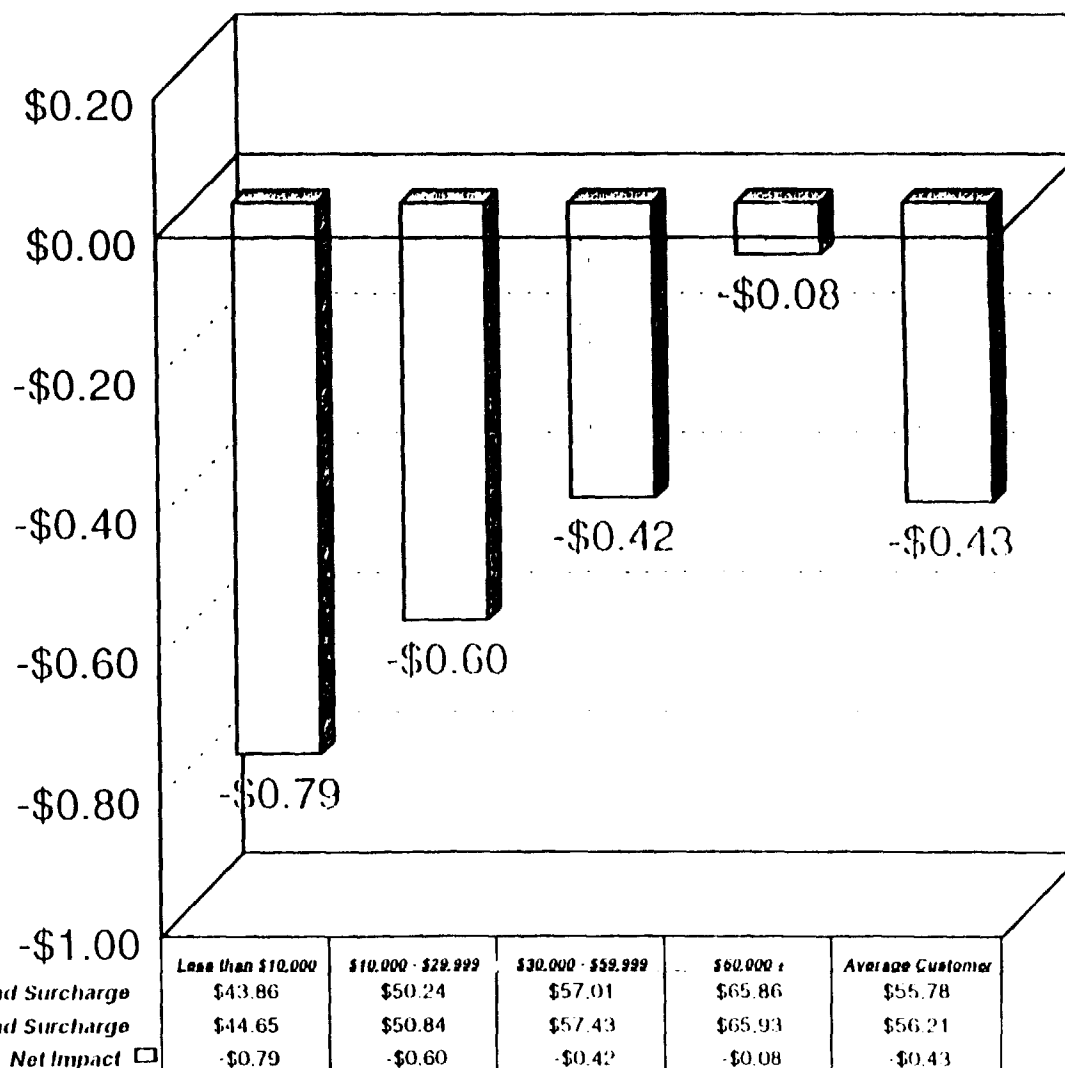
Net Savings

* Analysis based on 1998 PNR Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a 2.15% surcharge on total retail revenue. Any increase in high cost funding to states would produce additional reductions in state rates.

Net Customer Bill Impact By Household Income



A Flat Fee Of \$2.00 Per Line Would Generate Funding For The USTA Proposal To Eliminate The Interstate CCL and PICC: A \$4.3B Reduction In Access Charges. An Average Consumer Would Pay \$0.43 More Than They Do Today.



Average Local & Long Distance Bill Before Access Reduction And Surcharge

Average Local & Long Distance Bill After Access Reduction And Surcharge

Net Impact

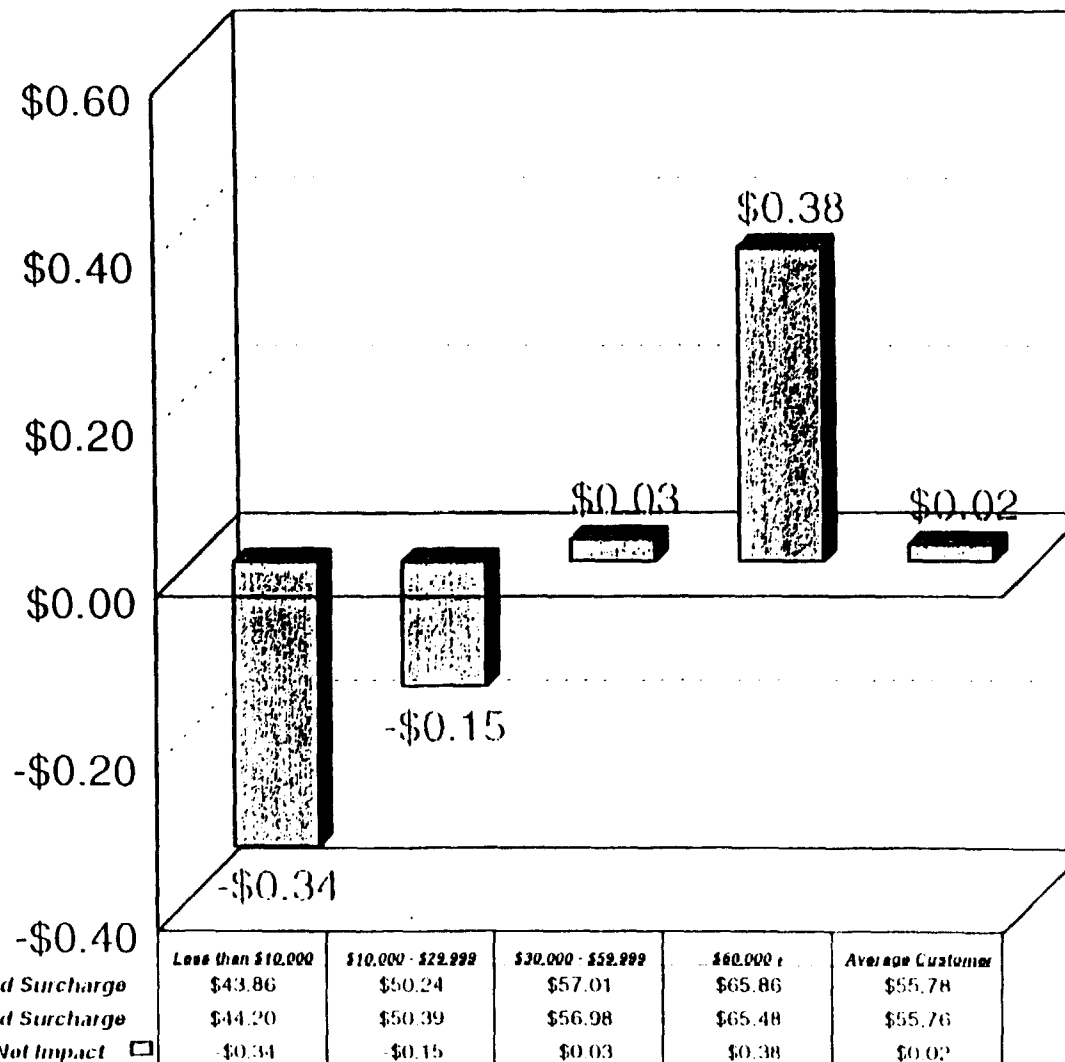
Less than \$10,000	\$10,000 - \$29,999	\$30,000 - \$59,999	\$60,000 +	Average Customer
\$43.86	\$50.24	\$57.01	\$65.86	\$55.78
\$44.65	\$50.84	\$57.43	\$65.93	\$56.21
-\$0.79	-\$0.60	-\$0.42	-\$0.08	-\$0.43

* Analysis based on 1998 PNR Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a \$2.00 surcharge per local loop. Any increase in high-cost funding to states would produce additional reductions in state rates that are not reflected here.

Net Customer Bill Impact By Household Income



A Flat Fee Of \$1.55 Per Telephone Number Would Generate Funding For The USTA Proposal To Eliminate The Interstate CCL and PICC: A \$4.3B Reduction In Access Charges. An Average Consumer Would Be About As Well Off Or Save A Few Pennies.



Average Local & Long Distance Bill Before Access Reduction And Surcharge
 Average Local & Long Distance Bill After Access Reduction And Surcharge
 Not Impact

Less than \$10,000	\$10,000 - \$29,999	\$30,000 - \$59,999	\$60,000 +	Average Customer
\$43.86	\$50.24	\$57.01	\$65.86	\$55.78
\$44.20	\$50.39	\$56.98	\$65.48	\$55.76
-\$0.34	-\$0.15	\$0.03	\$0.38	\$0.02

* Analysis based on 1998 PNH Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a \$1.55 surcharge per telephone number. Any increase in high rate funding to states would produce additional reductions in state rates that are not reflected here.

Benefits of USTA Plan

- Universal Service Support is Made Secure
- ILEC's can Compete Fairly
 - ILEC interstate rates not burdened by implicit support
- Local Competition no longer preempted
 - CLEC's have proper incentives to serve residence customers, who can benefit from choices, innovation
- These Benefits Can Be Gained Without Harm to Current Residence Customers
 - Dollars are already there today
 - Making support more efficient benefits consumers

How Will Benefits Be Passeded Through?

- Concern That IXC's Will Not Pass Through Access Reductions To All Customers
- Could Be Addressed By Making Access Reduction Conditional
 - To ensure that public policy objective is met
- To Get Access Reduction, IXC Would "Take the Pledge"
 - Voluntary agreement
 - Passthrough in form of credit on each customer's bill
 - Achieves policy goal without regulation of IXC's